

'Approved'

The Central Bank of the Republic

of Azerbaijan

Resolution # 01/2

21 January 2015

**Guidelines  
on prudential regulation of non-bank credit institutions**

**1. General Provisions**

1.1. These Guidelines have been developed in accordance with Articles 46.1 and 48 of the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan and Article 19 of the Law of the Republic of Azerbaijan on Non-bank Credit Institutions (hereinafter – the Law) and determine prudential norms and requirements on activities of non-bank credit institutions (hereinafter – NBCIs).

1.2. In accordance with Articles 10.2 and 15.1 of the Law, except for the cases of special permits to receive pledged deposits in the license issued by the Central Bank of the Republic of Azerbaijan (hereinafter – the Central Bank) for the NBCI, NBCIs are prohibited to attract savings (deposits) from legal entities and individuals.

**2. Definitions**

2.1. Definitions herein shall bear the following meanings:

2.1.1. borrower – any individual or legal entity, who obtains a loan from or owes to an NBCI;

2.1.2. special reserves – standard and non-standard assets of NBCIs as defined herein, as well as loan loss provisioning created on off-balance sheet liabilities;

2.1.3. fully secured loan - loan secured by collateral with the market value equal to or over the unpaid amount of this loan (movable and immovable property, pledged deposit), guarantee, warranty and other means as set under the Civil Code of the Republic of Azerbaijan.

2.1.4. partly secured loan – loan secured by collateral, the market value of which is less than the unpaid amount of the loan or by other securitization;

2.1.5. unsecured loan – loan without any security or whose security has no market value or not documented under the Civil Code of the Republic of Azerbaijan regardless its value;

2.1.6. recorded value – unpaid part of the principal and interest amount of the loan. The recorded amount of an asset, which is not a loan, is the price to acquire it;

2.1.7. capital – aggregate of capital elements on NBCI's balance sheet and shall be defined as a difference between the total of authorized (share) capital (property rights) and retained earnings (the amount after tax and obligatory deductions from profit), capital reserves, grants and donations (provided in cash and remaining at NBCI's disposal under contractual terms) and deductions from them.

2.2.. The definitions 'joint group of borrowers', 'related parties' and 'pledged deposit' bear the meanings specified in Article 1 of the Law.

2.3. For the purposes of Sections 5 and 6, as well as Items 7.1, 7.2. 7.4 and 8.4 herein credit is defined as the debt, due to NBCIs in the form of cash, as well as on accounting of leases, factoring, forfeiting and promissory notes.

### **3. Prudential norms and requirements**

3.1. The following prudential norms and requirements are established on performance of NBCIs:

3.1.1. minimum amount of authorized (share) capital (property rights) for both types of NBCIs;

3.1.2. for NBCIs entitled to receive pledged deposit:

3.1.2.1. maximum amount of loans to a borrower and a joint group of borrowers;

3.1.2.2. maximum amount of loans to and transactions with related parties;

3.1.2.3. requirements on special reserves created against expenses to cover possible losses depending on classification and evaluation of assets and off-balance sheet liabilities.

3.2. No norm is applied on the ratio of accepted pledge deposits to NBCI's capital for NBCIs entitled to accept pledged deposits.

#### **4. Authorized capital**

4.1. NBCIs should have authorized (share) capital or primary property consistent with their organizational-legal form and maintain them above the minimum threshold as stipulated in Item 4.3. herein over their lifetime.

4.2. Minimum authorized (share) capital of an NBCI, as well as property fees of founders of an NBCI established as a non-profit legal entity shall be paid in the form of money and only in manat in line with Article 7.1 of the Law.

4.3. Minimum authorized (share) capital (property rights) requirements of NBCIs shall be defined as follows:

3.4.1. AZN 300 (three hundred) thousand for an NBCI created as a profit legal entity;

3.4.2. AZN 30 (thirty) thousand for an NBCI (fund) created as a non-profit legal entity.

#### **5. Loans to a single borrower or a joint group of borrowers**

5.1. The NBCI entitled to receive pledged deposit shall observe the maximum threshold of loans to a borrower or a joint group of borrowers.

5.2.. Maximum amount of loans to a borrower or a joint group of borrowers shall not exceed 30 percent of NBCI's capital as of the lending date. Estimation of this norm

shall also include guarantees (principal, beneficiary) to a borrower and a joint group of borrowers.

## **6. Transactions with related parties**

6.1. The NBCI, entitled to receive pledged deposit, shall observe the maximum threshold when conducting transactions with related parties.

6.2. The remaining amount of total loans to all related parties shall not exceed 30 percent of NBCI's capital. Estimation of this norm shall include loans, as well as guarantees (principal, beneficiary) to related parties.

## **7. Special reserves**

7.1. The NBCI entitled to receive a pledged deposit shall evaluate its loans at least once per quarter and raise relevant funds against expenses on these assets in order to have a distinct and unbiased view of its financial standing and transactions results.

7.2. The NBCI shall analyze all its risky loans and relate them to relevant classification categories pursuant to these Guidelines.

7.3. Assets are classified into two groups: standard and non-standard assets. Standard assets include "satisfactory assets", while non-standard assets include "non-satisfactory", "doubtful" and "loss" assets.

7.4. Special reserves shall be created in the following amounts on classifications:

7.4.1. "satisfactory assets" – at 0% of the recorded value of fully secured, partly secured and unsecured loans, of which contractual maturity on principal amount and interest debts is delinquent for 30 days;

7.4.2. "non-satisfactory assets" - at 25% of the recorded value of fully secured loans of which contractual maturity on principal amount or interest debts is delinquent for 31-180 days;

7.4.3. "doubtful assets" - at 50% of the recorded value of fully secured loans of which contractual maturity on principal amount or interest debts is delinquent for 181-365 days, of partly secured and unsecured loans - 31-180;

7.4.4. "loss assets" - at 100% of the recorded value of fully secured loans of which contractual maturity on principal amount or interest debts is delinquent for over 365 days, of partly secured and unsecured loans over 181 days.

7.5. Off-balance sheet liabilities shall mainly include lending liabilities, credit lines, guarantees and other contingent liabilities. Off-balance sheet liabilities shall be evaluated and classified as follows:

7.5.1. NBCIs shall create special reserves classifying off-balance sheet liabilities based upon individual evaluation taking into account the guarantee of liability, client's financial standing and peculiarities of the risk and on classification groups as defined in Item 7.4. herein;

7.5.2. classification shall be made from the date of off-balance sheet liability creation;

7.5.3. The NBCI shall classify the unused portion of a credit line in line with the classification category of the used portion of the off-balance sheet liability in question (except for the cases when the NBCI is entitled to unilaterally not to implement the credit line in full or in part under terms and conditions of the loan agreement).

## **8. Creation of special reserves and accounting of assets written-off from the balance sheet**

8.1. Special reserves on possible loan losses shall be created through debiting of NBCI's expenses account.

8.2. The NBCI entitled to receive pledged deposit may at its discretion create special reserves in the amount above the threshold set in Item 7.4. herein on the basis of net profit at its disposal and/or retained earnings of past years.

8.3. The NBCI not entitled to receive pledged deposit may create special reserves to cover possible losses arisen during its activity only through net profit at its disposal and/or retained earnings of past years.

8.4. If any quality improvement in loans and off-balance sheet liabilities is found when evaluating, created reserves shall be reduced by crediting the relevant expenses

account or reduced amount of reserves not included to income in past shall be included to it.

8.5. The NBCI shall write-off "loss assets" from its balance sheet in the principle and interest debt amount. "Loss assets" shall be written-off from the balance sheet at the decision of the executive body (collegial or independent manager) of an NBCI.

8.6. All assets written-off from the balance sheet against reserves shall be accounted for and kept in relevant off-balance sheet accounts (sub-accounts) for at least 5 (five) years.

8.7. Funds received by an NBCI for repayment of assets previously written-off from the balance as "loss assets" shall be channeled to reduce the relevant expenses account or previously reduced amount of reserves not included to income shall be included to it.

8.8. Documents on assets written-off from the balance sheet are stored within the period specified in the Guidelines on archivation in the banking system of the Republic of Azerbaijan.